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RUEHBJ/AMEMBASSY BEIJING 0927  
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RUEHNE/AMEMBASSY NEW DELHI 3370  
RUEHUL/AMEMBASSY SEOUL 6796  
RUEHTC/AMEMBASSY THE HAGUE 0523  
RUEHKO/AMEMBASSY TOKYO 4411  
RUEHCI/AMCONSUL CALCUTTA 0777  
RUEHCN/AMCONSUL CHENGDU 0779  
RUDKIA/AMCONSUL CHIANG MAI 0449  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHGV/USMISSION GENEVA 2709  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
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SUBJECT: BURMA'S ROAD TO PROSPERITY LEADS TO CHINA

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11. (SBU) Summary: On a visit to Muse, the main border crossing point for trade with China, emboffs observed how trade enriches the Burmese towns along the route, and has spawned development on the Chinese side of the border. The GOB retains only a small percentage of potential revenue generated by this trade because a significant portion avoids the inefficient official checkpoints, and because corrupt border officials don't collect full customs duties. Recent punitive GOB actions to increase the official revenue from lucrative cross border trade are unlikely to succeed for long. End Summary.

12. (U) Econoff and FSN traveled to Muse on northern Shan State's Chinese border May 10-13. On the eleven-hour road trip between Mandalay in central Burma and Muse, emboffs saw over 150 heavily laden 10-wheel trucks moving goods along this primary China-Burma trade route. Recognizing the potential of this trade, in 1996 the GOB contracted Asia World, one of Burma's leading construction companies linked to the Wa drug trafficking organization, to build the winding 208 mile road, one of the best in the country. Asia World collects 2200 kyat (\$1.71 at market rates) in tolls for the trip, which it splits with the GOB. Foreigners are generally barred from traveling to Muse, and no tourists other than Burmese and Chinese were evident.

#### Trade Brings Development

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13. (U) Muse's population doubled in the past five years, according to locals, to about 180,000. Much of the development capital came from illicit drug proceeds, but trade and local tourism also contribute to the town's growth. Villages close to the border clearly show the benefits that flow from both legal and illegal trade. Buildings are larger

and better built than in most Burmese towns, local residents wear new, stylish clothing, and have modern bicycles and vehicles, and the villages seem well maintained. Residents benefit from conventional import and export of goods, illegal trade, export services such as trucking, brokering, customs clearance facilitation; and provision of food, fuel, entertainment, and housing for transiting traders, truckers and tourists. Many gain steady incomes by working in export shops just across the border. A Shan saleswoman told us that she earns the yuan equivalent of about \$52 per month, which compares favorably to the \$8-\$23 wage she could earn in Rangoon shops. Many Burmese workers also cross the border into China to find day labor, earning about \$4-5 per day. Burmese officials gain additional income from "facilitation payments" for each transaction. In comparison, other villages in the region not engaged in trade rely almost totally on agriculture production and are filled with bare bamboo structures, small dirt streets, and residents in much shabbier dress.

¶4. (U) According to official, but unreliable, statistics collected at border checkpoints, Burma exported about \$169 million worth of goods through Muse in FY 03-04 (75% of total exports to China), \$195 million in FY 04-05 (68% of total exports to China) and \$103 million in the first eleven months of FY 05-06. Reported imports through Muse were \$155 million in FY 03-04 (33% of total imports from China), \$152 million in FY 04-05 (31% of total imports from China), and \$110 million in the first eleven months of FY 05-06. Muse is by far the busiest of Burma's twelve official border export points, accounting for two thirds of all border trade over the last two years.

#### Exports, Imports, Transit and Transport

¶5. (SBU) According to business contacts, "China will buy

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whatever Burma can grow," and many Burmese take advantage of the inexhaustible demand of their giant neighbor. Burmese trucks bulging with produce process slowly through "105 Mile", a checkpoint 20 miles inside the border. According to drivers and local business contacts, at 105 Mile, trucking company drivers must pay up to eleven officials between 500 and 1000 kyat (less than a dollar) each to smooth the clearance process. The official paperwork declares 50-75% of the true value of the goods for a lower customs assessment, and companies split the difference with the officials. 105 Mile is growing fast and, according to a truck driver with 5 years of experience in the area, recently expanded into a small town. Although large, new buildings loom in the inspection yard, GOB officials sit outside at desks on the dirt, under an umbrella, and conduct their business slowly and manually. All inbound trade was held up on the day embosfs departed because one official had not yet shown up for work an hour after the checkpoint officially opened.

¶6. (U) Burmese trucks can drive easily into China through one truck gate, delivering goods to either Shweli, about three miles inside China, or to Jiegau, a new Chinese town just on the other side of a fenced ditch from Muse. Jiegau, a city of colorful multi-story buildings, only recently appeared on land adjacent to Muse that residents told us formerly belonged to Burma. Burmese citizens on foot or in private vehicles can cross with minimal difficulty at two smaller gates. Econ FSN crossed easily in to Jiegau on foot, after buying a pass, good for a year, for the equivalent of \$1.25.

¶7. (U) Burmese import Chinese housewares, clothing, sporting goods, DVDs, electronic goods, luggage, and shoes. For those who make the trip from inside Burma, new shops across the border in Jiegau offer wholesale appliances and electronic goods. Most salespeople either are from Burma or speak Burmese. Trucks, however, carry the majority of Chinese goods to 105 Mile for sale and transfer to other parts of Burma. A new MOU with China, once signed, will allow 3,000

each Burmese and Chinese trucks to cross each other's border and travel into the neighboring country, eliminating the current need to offload at border checkpoints. Truck drivers told us that the Chinese have no desire to carry their goods any further into Burma because, "the road is bad, and clearance procedures in Burma are difficult."

¶18. (U) Major businesses are not the only ones benefiting from trade activity at the border. Small private Burmese business owners, families, and travel groups make the long trip to Muse or across the border to Shweli or Jiegau to purchase goods they will resell in central and lower Burma. They come by truck or bus from as far away as Rangoon to fill their vehicles to bursting before returning. The Chinese products sold in Muse are slightly cheaper than in the rest of Burma, since they don't pass through customs at 105 Mile, and are even cheaper in Jiegau. We spoke with one entrepreneurial businessman who transships Chinese goods from Muse to customers across the Indian border. According to Muse businessmen, sales of Chinese goods have fallen as the kyat depreciated, reducing Burmese purchasing power. Local traders sell products from Burma to Chinese customers from warehouses and offices in the city. Chinese individuals also come to Muse as tourists and buy Thai or Singapore goods brought from Rangoon that are expensive or unavailable in western Chinese provinces.

#### Chasing the Elusive Underground Economy

¶19. (U) Business contacts estimate that the informal economy in Burma is at least as large as the formal economy, and that much of the underground trade crosses the Chinese and Thai

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borders. Most of the Chinese border around Muse is unmonitored and is crossed by numerous lesser roads and trails. We saw many motorbikes stacked dangerously high with goods emerging onto the main road from side trails. These "carriers" avoid legal checkpoints and other fees. Residents told us that the illegal drug trade is not as obvious as it was three to four years ago, and that most of the drugs are now carried across these hidden routes.

¶10. (U) On May 9 and 10, in a surprise move, the GOB detained dozens of officials and traders after investigating corruption by customs, immigration, police and army officials working at 105 Mile. A business contact told us that some of his colleagues fled into China, and now risk arrest if they return. A source told us later that the GOB released the detained immigration officials because the chief of immigration at the border is a classmate of the regional military commander. Everyone in Muse with whom we spoke discussed the crackdown and said it represents a GOB effort to capture more of the revenue that now goes into officials' pockets rather than into government coffers.

¶11. (SBU) On May 18, government officials informally notified importers and exporters that the Ministry of Commerce offices remaining in Rangoon will close by the end of May. Beginning in June, all traders must obtain an identification badge, and must submit all import and export applications to the Ministry of Commerce office in the new capital. These new procedures, never officially announced by the GOB, will add time and expense to an already lengthy and arbitrary process.

#### Log Exports Declining?

¶12. (SBU) Emboffs observed well over 100 trucks on the Mandalay-Muse road, and at least 100 trucks waiting for clearance at 105 Mile. Only about 5% of these trucks carried logs, a dramatic decline from Embassy observations and reporting on illegal timber trade. On May 20-23, a Chinese delegation visited Rangoon to promote sustainable logging practices. In a May 31 press release, the international NGO, Global Witness, announced that China had closed its border to imports of Burmese logs, after claiming that China had

imported over 1.5 million cubic meters of mostly illegal Burmese timber in 2005 alone.

¶13. (SBU) Comment: Trade with China brings a measure of prosperity to this region lacking government support for infrastructure and market incentives and is less risky than illicit drug trade. Located at the nexus of three large economies, enterprising Burmese take advantage of poorly controlled borders and corruption to profit from exports, imports, and transshipment of Burmese, Chinese, Indian and Thai goods. Most of this occurs outside official channels. The regime's crackdown shows awareness of the magnitude of lost revenues, but replacing one group of corrupt border officials with another will only put a temporary damper on trade. The inefficiencies we saw in the control of this very porous border, the new application procedures and the existing incentives to continue to trade informally, will more likely than not, push more cross-border trade beyond the reach of the government. End comment.  
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